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Property and Casualty Insurance — 1949

by

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For the first time since the war, the year 1949 seemed to present from the standpoint of the property and casualty insurance business most of the aspects of a so-called normal year. The problems which had vexed this portion of the insurance field in the years immediately succeeding the war—Public Law 15 and state regulation, lack of capacity, inadequate reserves and high loss ratios—seemed by the end of 1949 for the most part to have faded into the background.

Perhaps the most normal aspect of all was the return of competition to the property and casualty business. For a number of years following World War II, business was increasing at so phenomal a rate that all participants in the property and casualty field were hard put to perform their functions with available man power and capital. But, by the end of 1949, all this had turned about and the familiar aspects of competition—price cutting for acceptable lines in competitive fields like Automobile insurance, offering of excess commissions by companies in the highly competitive New York brokerage market—all marked the return of the insurance buyer's market.

For the most part, this was a healthy situation, long overdue. It meant the resumption of experimentation in new forms better adapted to public acceptance—like the 6 months' renewable Automobile policy being offered by one insurance group. It meant reduction in insurance costs, as better advisory services in fields like fire insurance encouraged a decline in loss ratio. And it meant a greater concern with the social aspects of insurance, with advent in growth of new forms of coverage like off-the-job temporary disability benefits coverage put into effect in New York and three other states.

Property Insurance

In the Property insurance field, two principal problems were encountered during 1949. The first had to do with rating of interstate fire insurance risks; this was a hold-over from the preceding year. The second was the beginning of what might become a far-reaching inquiry into the whole theory of term policy discounts.

When the new rating laws were put into effect state by state in the years following World War II, the only problem remaining unsolved was the rating of interstate risks. The principal problem which arose had to do with the insuring of the contents of the buildings. It was necessary to determine an equitable yet adequate rating system which would operate within the framework of the new state laws. For, "where the state governments fail to exercise proper jurisdiction, the federal government may be forced to supervise."

Prior to 1948, the rating of this type of business had been handled through the Interstate Underwriters Board and similar organizations

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for insurers not belonging to that association. While the I. U. B. always claimed that it was not a rating organization, it computed a single country-wide rate for each risk on the basis of values and applicable rates in various locations, and filed this rate in state jurisdictions as necessary. Member companies, under the guidance of the Board, issued master policies on interstate classes through certain designated offices equipped to handle this class of business. The companies then issued underlying policies for each state containing locations insured under master policies. Overriding or countersigning commissions were paid to the companies' duly licensed agencies in each state.

When Public Law 15 made necessary an examination of the handling of interstate risks by companies and insurance commissioners, it was recognized that since rates were originating from the Interstate Underwriters' Board, its operation would have to be aligned with the requirements of state rating laws. The Interstate Underwriters' Board operated as an advisory organization by the desire of the companies. Many of the statutes and safeguards applicable to rating organizations did not apply to it. It was felt that if the law said that rates were to be made by rating organizations, they should not be made by advisory organizations. So, in July, 1948, the I. U. B. had notified its members that advisory rates would no longer be quoted. Many interstate risks were placed under binder by insurers at that time, and the year 1949 saw this practice continuing with no rates as yet established.

The committee which had been assigned by the insurers to study this problem was headed by Mr. Ivan Escott, an official of a leading fire insurance company. After many months of deliberation by the committee and the interests with whom it met, the New York Insurance Department on September 1, 1949 approved the rcommndations of this committee for the adjustment of country-wide averages of specific rates on individual locations. The adjustment provided first for insurance on a 100% coinsurance basis and, second, for a limited debit or credit adjustment in rate in recognition of loss experience of the individual, multiple-location risk during preceding years. The loss experience period for fire insurance was set at 5 years, and at 10 years for extended coverage, vandalism and malicious mischief. The number of locations to be insured was, under the plan, given consideration in determining how much weight would be given to the loss experience of the particular insured and to the class to which the risk belongs.

Although late in the year certain groups of companies maintained legal action against establishment of this plan, it has already been adopted in a number of states. It is to be hoped that out of it will come some form of multiple location rating suitable to all insuring groups.

TERM RATE CREDITS

1949 also saw questioning, in the property field, of the time-honored custom of granting discounts when insurance is written for a term of more than one year. The discounts granted in the fire insurance business are typical of this practice. Here, following tradition which can be traced bac kto English practice of more than 300 years ago, insurers in most jurisdictions grant term insurance protection for 75% of the one year rate for each year succeeding the first.

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Aside from tradition, a sound economic argument can be given for this practice. Elimination of yearly bookkeeping makes possible substantial savings in renewing the business. Too, reserves which are set up on term business make possible considerably longer range planning on the insurers' investment programs, and affect the whole financial structure of the insuring organizations.

Early in 1949, a major fire insurance company organization, operating in several southeastern states and known as the South-Eastern Underwriters Association, adopted a plan providing for installment payment of three and five- year term fire business The installment premiums were to be equal to one annual premium for the first year, then provided for a reduction of 20% over the one year rate plus a service charge for each succeeding year of the term. The plan grew out of insurance producers' requests for a competitive weapon against similar term payments already established by a few companies.

This action brought a storm of protest from the insurance business. The principal argument was that the plan provided in effect a deviation in rate equal to the percentage reduction in exchange for a so-called handling charge of 3% spread over the term of the insurance.

It was also felt that the plan would unnecessarily burden each step of the insurance process from producer to insurer. Since the great majority of property business is written for a term of three or five years, many people felt that the term payment plan would require three to five time as much clerical work in handling this business, while bringing insufficient additional income to compensate therefor. Potentially this could have far-reaching effects on production costs.

For these reasons the term installment plan was opposed by a principal insurance producing group, the National Association of Insurance Agents, and it consequently has been established in only a few states. However, the justification of the time-honored custom of the term premium credit has now been brought in question; the year 1950 will undoubtely see further inquiry.

Experience

In almost all lines in 1949, the experience of the property and casualty field was good. In general, production records were realized in all fields. The almost solitary exception of this was ocean marine, where declining foreign trades has been followed by a decline of considerable extent in marine writings. Marshall Plan aid was reduced in 1949. Also, the dollar gap widened with most countries who trade with America, and these two factors were responsible for the difference. But at the same time loss ratios improved slightly for an all-over reasonably satisfactory year.

The gain in casualty premium writings, for the first time since World War II, was modest. The major growth of casualty premiums continued to be in the automobile lines. Automobile liability and property damage alone stood at well over $1,000,000,000 for 1949, about three times the volume of 1945.

The continued growth of miscellaneous liability lines was a noticeable feature of 1949. The trend from simple owners', landlords' & tenants or manufacturers' and contractors' liability to comprehensive general

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liability is picking up speed; it is to be expected that 1950 will see further increase in this growth.

Inland marine writings reached an all time high of more than $250,000,000,000 in 1949. This field is more affected by the new state regulatory laws than perhaps any other in the property and casualty field; the integration under the new laws has been smooth, and changes in regulation necessitated thereby have not impaired the ability of the business to continue to grow.

The inland marine field continues to study the problem of developing sound actuarial statistics. Although the nature of inland business is such that at no time in the foreseeable future will it be practical generally to substitute actuarial procedures for sound underwriting judgement, the need for the development of sound statistics is recognized. Uniform accounting, new to the inland marine field, will continue to develop more intelligible figures, particularly as regards expense factors.

The fidelity and surety field is peculiarly affected by business cycles outside itself. Reflecting the generally favorable business conditions, this classification enjoyed a good year. It showed a slight increase in volume, principally as a result of improvement in the contract field. It is believed that the reserves now being accumulated are adequate for any foreseeable decline in business activity, with consequent increase in the fidelity and surety loss ratio.

The leveling off of production, together with an improved loss ratio. made possible substantially improved profit ratios for insurers in 1949. Generally, it was the most favorable in a decade, and as such did much to offset the unfavorable losses of 1946 and 1947.

Fire insurance losses declined from an all time high in 1948 of $711,000,000 to $667,563,000 in 1949. This was a reduction of 6.1%.

Insurance Education

In the property and casualty field, the most significant educational growth during 1949 continued to be the Chartered Property & Casualty Underwriter movement. First started in 1943, 2,194 examinations were given last year, an increase of almost 50% over the preceding year. The CPCU designation was awarded to 106 persons in 1949, as against 66 in 1948 and 58 in 1947. This education of the insurance business itself, for the purpose of attaining professional status for its members, was progressing at good speed.

New Coverage Changes

Perhaps the only really significant new coverage developed in 1949 was the all risks dwelling policy, developed by mutual insurance producer groups. This policy is patterned in idea at least after policies long in vogue in England. It is designed to provide, in addition to the customary insurance against fire and other physical damage to the dwelling and contents, coverage in the same policy against liability and crime loss hazards.

This development was foreshadowed several years ago in the development by at least two groups of insurers of a combination residence policy. However, these combination residence policies have been written simply as a combination of the existing policies. No really new policy was written. This new devolpment projects the construction of an entirely new type of contract, written through the now legally permissible

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multiple-line type of companies. As an enlargement of the trend toward simpler insurance policies, it marked a significant step.

The new all risks dwelling policy was in the course of development throughout the whole of 1949. It was expected to be actually put to use early in 1950.

The only other significant policy revision was that of a garage liability, revised and simplified late in 1949. The principal changes were to make blanket additional interests coverage an automatic and standard part of the contract, and extension of the storage garage and service station coverage to include product liability insurance and at least a partial exclusion of the so-called "crankcase" property damage claims which have been a source of argument in the business for a number of years. While there were minor changes in both coverage and rules, the policy was revised and improved principally in language along the lines of automobile and other liability policies already in effect for some time.

Over-all Picture

Perhaps no one aspect of the property and casualty field in 1949 so significantly reflected its increased prosperity as the increased public interest in stocks of companies active in this field. The so-called triple squeeze of two years ago — huge statutory underwriting losses, skyrocketing unearned premium reserves and plummeting stock market — underwent a complete change. Catastrophe, too, was conspicuous by its absence. The result, for the first time in almost a decade, was an almost unvaried showing of excellent financial stability in year-end financial statements.

Demand for shares of insurers organized on a stock basis continued to rise throughout the year. In these groups, a number of leading insurers revived the practice of stock dividends to avoid impairment of working capital while still rewarding, in some measure, those who had ventured capital in the enterprise. Others increased dividends. Insurance stocks as a result took a long step forward in regaining investor favor lost during the previous six years. Those organizations operating on a mutual basis increased their dividends returned to policyholders; a few reduced rates.

Broad rate decreases, reflecting the lowered loss ratios, were at the end of the year in the offing. It was expected that 1950 would show a much closer margin for the business generally.

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